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## Critical Accounting Theory and Legitimate Theory: Issues and Challenges

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### ABSTRACT

*This study examines Critical Accounting Theory (CAT) and Legitimacy Theory, exploring their development, key arguments, applications, and challenges across both developed and developing nations. This research adopts a library method, relying on existing studies. A comprehensive literature review was conducted using academic journals, books, and reliable online databases to gather information on CAT and Legitimacy Theory. The focus was on understanding how these theories are applied in both developed economies and developing contexts, particularly in West Africa. The review emphasized existing case studies, theoretical perspectives, and empirical research to critically analyze the impact of accounting practices on social, environmental, and economic systems. The findings emphasize how CAT and Legitimacy Theory are pivotal in analyzing corporate disclosures and accounting practices, helping to understand how businesses navigate power dynamics and societal expectations in various settings. The study concludes with recommendations for enhancing transparency and accountability in corporate accounting practices.*

**Keywords:** Accounting theory; Critical Accounting Theory; Legitimacy Theory

## 1.1 Introduction

Accounting theory is a structured body of knowledge that addresses the principles, objectives, methods, and relationships involved in the practice of accounting. It provides a theoretical framework to guide accounting procedures and practices (Hendrikson, 1992). The origins of accounting theory trace back to the barter system, where goods were exchanged directly. This early economic system presented challenges, such as unequal measures of value and difficulties in matching needs, which accounting theory helped to overcome, paving the way for the transition to a monetary economy. Accounting theory, as defined by organizations like the American Accounting Association (AAA) and AICPA, encompasses a set of concepts and guidelines that direct the analysis, measurement, and communication of financial information (Fasua & Oladejo, 2023). These principles are constantly evolving, driven by the varied interests of stakeholders such as creditors, labor unions, management, and government agencies. The field's adaptability reflects its response to the increasing complexity of business operations and the risks involved. The International Financial Reporting Standards (IFRS) play a key role in shaping contemporary accounting theories and practices, making the field even more dynamic (Jansson, 2020).

Accounting theory is used to explain “as logical reasoning in the form of a set of broad principles that provide a general frame of reference by which accounting practice can be evaluated and guide the development of new practices and procedures (Hendrikson, 1992). In accounting however, theory has loose and overlapping meanings with principles, concepts, conventions, doctrines, standards, rules, assumptions, tenets, postulates and procedures which are used interchangeably in this case. These doctrines however gave credence to the rational judgment, universal applicability, comparability, and acceptability of financial statements (Fasua & Oladejo, 2023).

Recent developments in accounting theory have led to significant growth and innovation. As with any system, the absence of rules and regulations can lead to premature stagnation, an inability to endure over time, and a lack of consistency in evaluation and comparability. A major force in shaping contemporary accounting theories globally is the International Financial Reporting Standard (IFRS), which has influenced accounting practices and principles worldwide (Jaiyeola & Ajibade, 2016). In developing nations, the impact of these theories is profound, especially in countries like Nigeria, where economic and political instability highlight the importance of understanding how accounting can either reinforce or challenge existing power structures. Nigeria, with its rich natural resources but deep-rooted challenges such as corruption, weak governance, and environmental issues, presents a context where accounting extends beyond financial reporting. It becomes a tool for legitimizing questionable corporate practices - particularly in industries like oil and gas - or for exposing and challenging societal inequalities. The application of Critical Accounting Theory (CAT) and legitimacy theory in such contexts helps to reveal how corporations respond to societal pressures and manage their relationships with the state and public (Martens & Bui, 2023).

In developed countries, CAT has been used to expose how multinational corporations exploit financial systems to minimize taxes and maximize profits, often to the detriment of local communities and environmental sustainability. This exploitation becomes more pronounced in developing economies like Nigeria, where weak regulatory frameworks and governance allow multinational corporations to wield disproportionate power (Ullah et al., 2020). For instance, the oil industry in Nigeria is a prime example of how CAT can be applied. Multinational companies operating in the oil-rich Niger Delta have faced accusations of

environmental negligence, perpetuation of poverty, and exacerbation of social inequalities (Dzedzemoon & Ferro, 2024). CAT enables a critical analysis of how accounting practices can serve corporate interests while neglecting local communities' welfare.

Legitimacy theory also plays a significant role in both developed and developing nations. In developed economies, corporations are under constant pressure to align with societal norms, particularly regarding environmental and social responsibilities (Martens & Bui, 2023). For example, companies in Europe and North America are often expected to report on their sustainability practices and demonstrate their commitment to corporate social responsibility (Forte, 2013). In developing countries like Nigeria, the need for legitimacy arises from various sources, including local communities, international organizations, and host governments. Companies, particularly in the oil sector, frequently use environmental and social disclosures to maintain legitimacy, often in response to criticism regarding environmental damage and human rights abuses in the Niger Delta (Mamudu et al., 2021).

Therefore, the examination of critical accounting theory and legitimacy theory is crucial for understanding the broader socio-economic and political environments in both developed and developing nations. These theories offer valuable insights into how accounting practices and corporate disclosures manage power dynamics, either perpetuating or challenging social inequalities, while legitimizing corporate actions in various contexts. This paper explores the development, key arguments, applications, and challenges of these theories in both developed and developing countries, with a specific focus on Nigeria and other West African nations. The remaining part of this study focused on the discussions of critical accounting theory (cat) and legitimacy theory, conclusion and recommendations.

## **2.1 Critical Accounting Theory**

Critical Accounting Theory (CAT) emerged as a critique of traditional accounting practices, highlighting the limitations and biases embedded within conventional approaches. Influenced by critical social theories from scholars such as Karl Marx, Michel Foucault, and Jürgen Habermas, CAT scrutinizes the ways in which accounting practices reflect and perpetuate power structures and inequalities (Gaffikin, 2006). Traditional accounting theories often present the discipline as neutral and objective, focusing on efficiency and accuracy. In contrast, CAT argues that accounting is deeply intertwined with socio-economic and political forces, serving particular interests and reinforcing existing power dynamics (Tinker et al., 1982). This perspective challenges the idea that accounting is a purely technical field, instead emphasizing its role in shaping and legitimizing economic and social systems.

### **2.1.1 Historical Development of Critical Accounting Theory**

The development of CAT began in the 1970s and 1980s as scholars began questioning the assumptions underlying traditional accounting practices. Pioneering works by Tony Tinker and David Cooper highlighted how accounting was not merely a tool for recording financial transactions but a practice embedded within broader ideological and power structures (Cooper & Sherer, 1984). Tinker's research, for instance, demonstrated how accounting practices supported capitalist ideologies by focusing on profit maximization and cost control, often neglecting social and environmental impacts (Tinker, 1985). Similarly, Cooper and Hopper explored how accounting techniques were used by governments to justify economic policies that disproportionately affected marginalized groups (Cooper & Hopper, 1990). By the 1990s and 2000s, CAT had expanded to incorporate feminist, postcolonial, and environmental critiques. Feminist scholars examined how accounting practices often

overlook unpaid labor and gendered work. Postcolonial critiques focused on the imposition of accounting standards from the Global North onto the Global South, revealing the ways these practices exacerbate inequalities (Gallhofer & Haslam, 2003).

### **2.1.2 CAT in Developed Countries**

In developed nations such as the United States and the United Kingdom, accounting has traditionally been associated with enhancing economic efficiency and transparency. However, CAT offers a critical perspective on how accounting in these contexts reinforces power structures. For example, the emphasis on shareholder value can prioritize the interests of investors over those of workers and the environment (Ullah et al., 2020). The global financial crisis of 2007-2008 highlighted these issues, as accounting practices like mark-to-market valuation were linked to the creation of financial bubbles (Roy & Kemme, 2020). CAT helps to understand how accounting practices in developed economies contribute to the legitimization of neoliberal policies and the concentration of wealth.

### **2.1.3 CAT in Developing Countries**

In developing countries, CAT provides insights into how accounting practices can perpetuate inequality and corruption. The Nigerian context, marked by significant economic and political challenges, illustrates how accounting can serve to legitimize and perpetuate existing power imbalances. A key issue in Nigeria is the role of accounting in facilitating corruption and mismanagement. The lack of transparency in public sector accounting has allowed for the misappropriation of funds and the enrichment of small elite, often at the expense of broader societal needs (World Bank, 2020). The adoption of International Financial Reporting Standards (IFRS) in Nigeria also highlights the limitations of applying standards developed in the Global North to developing countries. Critics argue that IFRS often caters to the needs of multinational corporations and foreign investors, rather than addressing local business realities and community needs (Osho & Adeniyi, 2022). In addition, the management of natural resources, particularly oil, underscores the role of accounting in legitimizing resource exploitation. Nigeria's oil sector, characterized by environmental degradation and social inequities, demonstrates how accounting practices can prioritize short-term financial gains over long-term social and environmental sustainability (Omofonmwan & Odia, 2009).

CAT emphasizes the need for accounting practices to address social and environmental impacts. Traditional accounting often overlooks these aspects, focusing instead on financial performance. CAT advocates for a more comprehensive approach that considers the broader implications of economic activities. In developed countries, CAT critiques the tendency of accounting to externalize environmental costs, such as pollution and health impacts, which are not always reflected in financial statements (Khatun & Hossain, 2023). In Nigeria, CAT highlights the environmental degradation caused by the oil industry, where the negative impacts are often inadequately accounted for in financial reporting (Uche, 2001).

### **2.1.4 Key Arguments of Critical Accounting Theory**

This study investigates the core arguments of CAT, illustrating its critique of traditional accounting approaches and its insights into the role of accounting in societal power dynamics.

#### **1. Accounting as a Social Construct**

CAT argues that accounting is not a mere technical activity but a socially constructed practice influenced by various societal factors. Traditional accounting theories often emphasize the

technical precision and objectivity of accounting. In contrast, CAT highlights that accounting practices are shaped by social, political, and economic contexts, which determine how financial information is recorded and reported (Tinker, 1985). This perspective challenges the view of accounting standards as universally objective. Instead, CAT argues that these standards are shaped by the interests of powerful groups, which can lead to practices that serve specific ideological and economic goals while marginalizing other perspectives (Tinker et al., 1982). By focusing on the social construction of accounting, CAT reveals how accounting practices reflect and perpetuate the interests of dominant societal groups.

## **2. Accounting and Power Dynamics**

A significant argument of CAT is that accounting serves to reinforce existing power structures and legitimize authority. Traditional views often present accounting as a tool for enhancing transparency and accountability. However, CAT asserts that accounting can also reinforce power dynamics by reflecting the interests of powerful stakeholders, such as multinational corporations and financial institutions (Cooper & Sherer, 1984). For example, financial reporting standards and practices are often influenced by powerful entities, which may shape these rules to align with their interests. This influence can result in accounting practices that prioritize the needs of these stakeholders over less powerful groups, such as employees or local communities. Thus, accounting practices can contribute to maintaining and reinforcing economic and social inequalities (Hoskin & Macve, 1986).

## **3. Ideological Functions of Accounting**

Another key argument of CAT is that accounting performs an ideological function by promoting specific economic and political ideologies. Traditional theories typically emphasize the efficiency and objectivity of accounting. CAT, however, argues that accounting often serves to advance particular ideologies, especially those associated with capitalism and neoliberalism (Tinker, 1985). For instance, CAT critiques how accounting practices frequently emphasize profit maximization and cost control, core elements of capitalist ideology. This focus helps sustain capitalist economic systems and marginalize alternative economic models. By highlighting the ideological role of accounting, CAT demonstrates how accounting practices can support and perpetuate dominant economic and political ideologies (Gray, 2002).

## **4. Perpetuation of Social Inequality**

CAT also addresses how accounting contributes to social inequality. Traditional accounting often prioritizes financial performance without adequately considering social and environmental impacts. CAT argues that this focus on financial metrics can exacerbate social inequalities by overlooking the effects of accounting practices on marginalized and disadvantaged communities (Cooper & Hopper, 1987). For example, accounting practices that fail to account for environmental costs can lead to environmental degradation, disproportionately affecting vulnerable communities. By neglecting these broader impacts, accounting practices can reinforce existing inequalities and power imbalances (Gray & Laughlin, 2012).

## **5. Accounting and Economic Crises**

CAT examines the role of accounting in economic crises, such as financial scandals and market collapses. While traditional theories often view accounting as a safeguard against financial instability, CAT argues that accounting practices can sometimes contribute to

economic crises by enabling risky or unethical behavior (Arnold, 2009). The global financial crisis of 2007-2008, for instance, illustrated how accounting practices like mark-to-market valuation played a role in creating and exacerbating financial bubbles. CAT provides a framework for understanding how accounting practices can be complicit in economic instability by focusing on short-term financial gains rather than long-term stability and ethical considerations (Arnold, 2009).

## **6. Advocating for a Critical Perspective**

CAT advocates for a critical approach to accounting that extends beyond technical and financial considerations. Traditional accounting theories often aim to improve the efficiency and accuracy of accounting practices. In contrast, CAT calls for a more comprehensive perspective that considers the broader social, political, and economic implications of accounting (Gallhofer & Haslam, 2003). This critical perspective involves questioning the underlying assumptions of accounting practices and exploring how they can be reformed to address social and environmental concerns. By promoting a critical approach, CAT seeks to challenge existing practices and advocate for accounting methods that are more equitable and socially responsible (Tinker, 1985).

### **2.1.5 Applications in the Accounting Field**

Critical accounting theory has been applied in various areas of accounting research, including social and environmental accounting. Researchers have used CAT to argue for the inclusion of non-financial information in corporate reporting, focusing on issues like environmental sustainability, corporate social responsibility, and the treatment of employees. For example, Gray et al. (1996) advocated for sustainability reporting as a way to challenge the traditional profit-centric view of corporate performance. In management accounting, CAT has been used to critique the ways management control systems reinforce managerial power over employees. Hopper and Armstrong (1991) demonstrated how budgeting and performance measurement systems are often designed to maintain managerial control, rather than fostering collaboration and inclusivity within organizations.

In developed countries, CAT has been used to critique prevailing accounting norms and standards, which often prioritize profit maximization and shareholder value over broader societal concerns. For instance, in the United States and European countries, CAT has analyzed the impacts of financial reporting standards on income inequality and environmental sustainability (Cooper & Sherer, 1984; Hopwood & Miller, 1994). A notable application of CAT is its critique of fair value accounting and its role in the 2008 financial crisis. CAT frameworks have examined how the emphasis on fair value accounting contributed to financial instability and failed to account for socio-economic impacts on different segments of society (Kirkpatrick, 2009).

In developing countries, including Nigeria, CAT addresses issues related to transparency, corruption, and the influence of multinational corporations. Traditional accounting practices in these contexts often face challenges such as weak regulatory environments and limited access to financial information. CAT helps highlight how these practices may reinforce existing power imbalances and exacerbate issues like corruption and inequality (Martens & Bui, 2023). For example, in Nigeria, CAT has critiqued accounting practices in the oil and gas sector, revealing how financial reporting has been scrutinized for contributing to resource mismanagement and corruption (Jimoh et al., 2023). The theory advocates for more transparent and socially responsible accounting practices to support equitable development and better governance.

### **2.1.6 Issues and Challenges**

Critical accounting theory faces several challenges, particularly its lack of clear solutions. While it provides a powerful critique of existing accounting practices, it offers fewer practical recommendations for reform (Chua, 1986). Additionally, CAT's theoretical complexity makes it difficult to apply in practice, as many of its ideas are abstract and require a deep understanding of social theory. Finally, CAT has been criticized for its pessimistic tone, with some arguing that it focuses too much on the negative aspects of accounting practices and fails to recognize opportunities for positive change (Tinker, 1991).

This paper examines these issues in the context of the developed countries and developing, highlighting common and distinct challenges in each setting.

## **I. Issues and Challenges in Developed Countries**

### **1. Challenges with Regulatory and Standardization**

In developed nations like the United States, a major challenge for CAT is reconciling its principles with established accounting standards. The dominant frameworks, such as Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS), are primarily focused on financial performance and shareholder value (Sikka, 2009). These standards often prioritize metrics that reflect corporate profitability over broader social and environmental impacts. For instance, fair value accounting, which gained prominence before and during the 2008 financial crisis, has been criticized for its role in exacerbating financial instability and overlooking socio-economic impacts (Kirkpatrick, 2009). Integrating CAT's broader social and ethical considerations into these entrenched standards requires significant reform. This involves aligning financial reporting practices with values that emphasize social responsibility and sustainability, which can be difficult due to the resistance from entrenched corporate interests (Miller, 1994).

### **2. Corporate Influence on Accounting Standards**

In the USA, the influence of powerful corporations poses a significant challenge to CAT. Large firms and financial institutions have substantial control over accounting practices and regulatory processes, which can impede efforts to reform accounting practices in line with CAT principles (Tinker, 1985). Corporate lobbying can result in regulations that favor financial performance over social equity, thereby limiting the adoption of CAT's broader social justice goals. This influence was evident during the financial crisis, where corporate interests influenced the regulatory framework to prioritize financial stability over equitable practices (Cooper & Sherer, 1984). Addressing this issue requires efforts to democratize the accounting profession and enhance transparency in regulatory processes; advocating for reforms that integrate CAT principles, despite resistance from powerful stakeholders, is crucial for achieving more socially responsible accounting practices (Sikka, 2009).

## **II. Issues and Challenges in Developing Countries**

### **1. Weak Regulatory Frameworks**

In developing countries like Nigeria, weak regulatory frameworks present a significant challenge to the application of CAT. Many developing nations struggle with inadequate regulatory oversight, which can hinder the adoption of effective accounting practices and standards (Abu-Musa, 2010). In Nigeria, the accounting profession is often characterized by limited regulation, which can lead to issues such as financial mismanagement and corruption.

This environment presents challenges for applying CAT, which relies on robust regulatory frameworks to ensure accountability and transparency (Martens & Bui, 2023). Strengthening regulatory frameworks is essential for effective CAT implementation. This includes enhancing the capabilities of regulatory bodies, improving enforcement mechanisms, and fostering a culture of transparency within the accounting profession (Khatun & Hossain, 2023).

## **2. Prevalence of Corruption**

Corruption is a major issue in many developing countries and poses significant challenges for the application of CAT. In Nigeria, corruption undermines financial reporting and accountability, making it difficult to implement CAT principles effectively (Martens & Bui, 2023). Corruption can distort financial reporting and hinder efforts to address social and economic inequalities through accounting practices. CAT's focus on transparency and ethical behavior is undermined in environments where corruption is prevalent, complicating efforts to achieve social justice through accounting (Khatun & Hossain, 2023). Combatting corruption requires a comprehensive approach that includes strengthening anti-corruption measures, enhancing transparency in financial reporting, and promoting ethical behavior within the accounting profession. Implementing CAT principles in such a context requires overcoming these systemic challenges (Khatun & Hossain, 2023).

### **2.2 Legitimacy Theory**

Legitimacy theory is another important framework in accounting research, focusing on how organizations manage their relationships with society. It posits that organizations must align their activities with societal values and expectations to maintain legitimacy in the eyes of stakeholders. Legitimacy is essential for organizations to secure the continued support of their stakeholders, including customers, investors, regulators, and the general public.

#### **2.2.1 Development of Legitimacy Theory**

Legitimacy theory was first articulated by Dowling and Pfeffer (1975) in their paper "Organizational Legitimacy: Social Values and Organizational Behavior." They argued that organizations must conform to societal norms and values to ensure their survival. The concept is rooted in the notion of a "social contract" between organizations and society, where organizations must meet societal expectations or risk losing their legitimacy (Dowling & Pfeffer, 1975). They suggested that companies often respond to legitimacy threats, such as environmental scandals or ethical breaches, by increasing their disclosures to demonstrate accountability and responsibility.

The concept of legitimacy theory can be traced back to early sociological and organizational studies. Max Weber's seminal work on bureaucracy emphasized the significance of legitimacy in organizational stability, arguing that legitimacy is crucial for the endurance and support of social institutions (Weber, 1922). Robert Merton further expanded on this by examining how societal norms influence organizational behavior (Merton, 1968). The formalization of legitimacy theory in organizational studies was significantly advanced by Suchman (1995). Suchman defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within a socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). The study categorized legitimacy into three types: pragmatic, moral, and cognitive. Pragmatic legitimacy concerns stakeholders' self-interests, moral legitimacy relates to normative evaluations, and cognitive legitimacy involves the taken-for-granted nature of organizational practices.

### **2.2.2 Legitimacy: Theory in Developed Countries**

In developed nations, legitimacy theory has been instrumental in understanding various aspects of corporate behavior, including corporate social responsibility (CSR) and environmental sustainability. Organizations in these countries are often subject to high expectations regarding ethical practices and environmental stewardship. For example, companies are expected to comply with sustainability reporting frameworks like the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC), which provide guidelines for reporting on environmental and social impacts (GRI, 2020; UNGC, 2020). The relationship between legitimacy and regulatory compliance is particularly pronounced in developed countries. Organizations are expected to adhere to strict legal and ethical standards, with non-compliance leading to potential reputational damage and loss of legitimacy (Hess, 2007). The Sarbanes-Oxley Act in the United States, for instance, was introduced to enhance transparency and accountability in financial reporting, reflecting societal demands for robust corporate governance (Coffee, 2007).

In developing countries, the application of legitimacy theory is more complex due to factors like political instability, weak regulatory frameworks, and diverse cultural contexts. Organizations in these environments often face additional challenges in establishing and maintaining legitimacy. In Nigeria, for example, organizations must navigate a multifaceted landscape where legitimacy is influenced by both formal regulations and informal practices. In Nigeria, businesses frequently engage in CSR activities to align with community expectations and build legitimacy. These activities often focus on supporting local development projects such as education and healthcare (Amaeshi et al., 2006). However, the legitimacy of organizations in Nigeria is also closely tied to political connections and adherence to informal regulatory practices (Adeleye, 2020). Establishing relationships with political figures and complying with unofficial norms can be essential for maintaining legitimacy.

Cultural factors also play a significant role in shaping legitimacy in Nigeria. Organizations, especially multinational corporations, often need to adapt their practices to align with local cultural values and traditions to be perceived as legitimate (Emeagwali, 2007). This adaptation process might involve engaging with traditional leaders and integrating local customs into business practices. The oil and gas industry in Nigeria exemplifies the application of legitimacy theory in a developing country context. This sector, vital to Nigeria's economy, has faced numerous challenges, including environmental damage, corruption, and social unrest. To maintain legitimacy, oil companies in Nigeria have implemented various initiatives aimed at addressing environmental and social issues.

For instance, companies have undertaken projects related to environmental remediation and community development (Ite, 2004). However, the effectiveness of these initiatives is often questioned. Critics argue that some companies use CSR efforts primarily for public relations rather than making a genuine impact on local issues (Nwagbara, 2014). This underscores the importance of authentic community engagement and transparency in CSR practices to uphold legitimacy.

### **2.2.3 Key Arguments of Legitimacy Theory**

At the core of legitimacy theory is the idea that organizations operate within a social contract with society. This contract obligates organizations to act in ways that align with societal norms and values. When organizations violate this contract, such as through unethical or environmentally harmful behavior, they risk losing legitimacy and, consequently, stakeholder

support (Deegan, 2002). Legitimacy theory emphasizes the concept of a "legitimacy gap," which occurs when there is disconnect between an organization's actions and societal expectations. These gaps often arise during periods of crisis, such as corporate scandals or environmental disasters, when public perceptions of the organization are damaged (Lindblom, 1994). Organizations must act to close these gaps by aligning their behavior with societal expectations.

### **1. Corporate Disclosures**

Legitimacy theory suggests that corporate disclosures, such as financial reports, sustainability reports, and public statements, are used as tools for managing legitimacy. For example, organizations may increase their disclosures in response to criticism or negative public perception to demonstrate accountability and regain stakeholder trust (Patten, 1992).

In developed countries, organizations often operate within well-defined regulatory frameworks that reflect societal norms. For instance, companies in the United States and the European Union are expected to adhere to rigorous environmental and social standards. Compliance with frameworks such as the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC) helps organizations demonstrate their commitment to these norms (GRI, 2020; UNGC, 2020). In contrast, developing countries like Nigeria present a more complex landscape for aligning with societal norms. Organizations must navigate a diverse set of local values and practices. For example, multinational corporations in Nigeria often engage in corporate social responsibility (CSR) initiatives that cater to local needs and expectations, such as supporting community development projects (Amaeshi et al., 2006).

### **2. Stakeholder Management**

Another key argument of legitimacy theory is the importance of managing stakeholder relationships. According to Suchman (1995), organizations need to address the interests and concerns of various stakeholders to maintain their legitimacy. This involves not only adhering to regulatory requirements but also responding to the expectations of customers, employees, and the broader community. In developed countries, stakeholder management is often formalized through established regulatory and governance standards. For instance, transparency and accountability are emphasized, with regulations like the Sarbanes-Oxley Act in the U.S. setting high standards for corporate governance and financial reporting (Coffee, 2007). Companies are expected to actively manage their relationships with stakeholders and report on their social and environmental impacts.

In developing countries such as Nigeria, stakeholder management can be influenced by a combination of formal regulations and informal practices. Organizations need to build and maintain relationships with local communities, government officials, and other stakeholders to sustain legitimacy. For example, oil companies in Nigeria must address the environmental and social concerns of local communities while navigating political and regulatory complexities (Ite, 2004).

### **3. Institutional Isomorphism**

Institutional isomorphism, as described by DiMaggio and Powell (1983), suggests that organizations tend to adopt similar practices to gain legitimacy within their institutional environments. In developed countries, this is often seen in the standardization of practices

across industries. Organizations conform to established norms and practices to avoid scrutiny and gain acceptance. In developing countries, institutional isomorphism may be less pronounced due to weaker regulatory frameworks and diverse cultural contexts. In Nigeria, organizations often integrate global best practices with local customs, resulting in a hybrid approach to legitimacy. This adaptation allows organizations to align with both international standards and local expectations (Emeagwali, 2007).

#### **4. Legitimacy as a Dynamic Process**

Legitimacy is not a static attribute but a dynamic process that requires continuous adaptation to changing societal expectations. Organizations must constantly adjust their practices to remain aligned with evolving norms and values. This dynamic aspect of legitimacy is evident in both developed and developing countries.

In developed countries, changes in regulatory frameworks and shifts in public opinion drive the dynamic nature of legitimacy. For example, increasing environmental awareness has led to stricter regulations and heightened expectations for corporate environmental responsibility (Hess, 2007). In developing countries like Nigeria, the dynamic nature of legitimacy is influenced by political, economic, and social changes. Organizations must remain responsive to these changes to maintain legitimacy. For instance, fluctuations in government policies or economic conditions may necessitate adjustments in organizational practices (Nwagbara, 2014).

#### **2.2.4 Application of Legitimacy Theory in Nigeria**

Nigeria offers a distinctive context for applying legitimacy theory due to its complex socio-political and economic environment. The key arguments of legitimacy theory manifest in various ways within this context:

##### **1. Alignment with Local Norms**

In Nigeria, organizations must align their practices with a broad array of local norms and values. This often involves engaging in CSR activities that address local community needs. Companies operating in Nigeria frequently invest in initiatives such as education, healthcare, and infrastructure to enhance their legitimacy (Amaeshi et al., 2006).

##### **2. Stakeholder Management**

Effective stakeholder management is crucial in Nigeria, where organizations must navigate a multifaceted environment of political, social, and economic factors. Engaging with local communities and government officials is essential for maintaining legitimacy. For example, oil companies must address the environmental and social impacts of their operations while managing relationships with local communities and political entities (Ite, 2004).

##### **3. Institutional Isomorphism**

While institutional isomorphism is present in Nigeria, it often takes on a hybrid form. Organizations may adopt international best practices while also incorporating local customs and practices. This hybrid approach allows them to meet global standards while remaining relevant in the local context (Emeagwali, 2007).

#### 4. Dynamic Legitimacy

The dynamic nature of legitimacy is particularly relevant in Nigeria, where political and economic conditions can change rapidly. Organizations must be adaptable and responsive to these changes to sustain their legitimacy. For instance, shifts in government policies or economic fluctuations may require organizations to modify their practices to align with new expectations (Nwagbara, 2014).

##### 2.2.5 Issues and Challenges

One of the main challenges of legitimacy theory is its assumption of rational behavior. The theory assumes that organizations will always act rationally to maintain legitimacy, which may not always be the case (Suchman, 1995). Additionally, legitimacy theory has been criticized for being too focused on external perceptions and failing to consider internal factors, such as corporate culture and leadership, that influence legitimacy management strategies (Ashforth & Gibbs, 1990). Another challenge is the subjectivity of legitimacy. What constitutes legitimate behavior can vary widely across different societal groups and over time, making it difficult for organizations to consistently align their actions with societal expectations (Lindblom, 1994). Moreover, there is a risk that organizations may engage in symbolic actions, such as "greenwashing," to maintain legitimacy without making substantive changes (Laufer, 2003).

Developed countries, while having well-defined regulatory and institutional frameworks, still encounter several challenges related to legitimacy theory:

Developed nations often feature complex regulatory environments. For instance, the European Union's directives on environmental management necessitate adherence to intricate and evolving regulations (European Commission, 2018). Organizations in these regions face significant challenges in keeping up with these regulatory demands and ensuring compliance. In developed countries, public awareness and media coverage significantly impact organizational legitimacy. For example, environmental scandals or unethical practices can rapidly damage an organization's reputation (Brown & Deegan, 1998). The high level of scrutiny necessitates that organizations continuously align their practices with societal expectations to avoid negative publicity. There is a strong societal expectation for companies in developed countries to engage in CSR activities. This expectation involves not only meeting legal requirements but also actively contributing to societal and environmental causes, which can be resource-intensive (Porter & Kramer, 2006).

In developing countries, such as Nigeria and other West African nations, legitimacy theory faces unique challenges:

Regulatory frameworks in developing countries are often less robust and inconsistently enforced. For instance, in Nigeria, environmental regulations related to waste management face challenges due to limited enforcement capabilities and corruption (Adams & Osabuohien, 2018). This weak regulatory environment complicates efforts to achieve legitimacy through adherence to environmental standards. Many developing countries experience political and institutional instability, affecting the consistency of regulatory enforcement. In Nigeria, frequent changes in government and political instability can disrupt regulatory frameworks and undermine efforts to maintain legitimacy (Ogunbameru, 2020). Socioeconomic conditions and cultural practices in developing countries can conflict with formal regulatory requirements. For example, informal waste disposal practices are prevalent

in many West African communities due to economic constraints, which can be at odds with formal waste management regulations (Olusola, Adetunji, & Adejumo, 2021).

Organizations in developing countries often operate with limited resources, which can hinder their ability to comply with environmental regulations and engage in CSR activities. In Nigeria, the financial and operational costs associated with implementing sustainable practices can be prohibitive, especially for smaller enterprises (Nwachukwu, 2019). Public awareness and engagement on environmental issues may be lower in developing countries. In West Africa, lower levels of environmental education and awareness can reduce societal pressure on organizations to adopt environmentally friendly practices, thereby impacting the effectiveness of legitimacy efforts (Meyer et al., 2017).

### **3. Theoretical Background**

Critical Accounting Theory (CAT) critiques conventional accounting practices by focusing on power dynamics, social justice, and the impact of accounting on various social groups. It highlights how accounting practices can perpetuate inequalities and power imbalances (Cooper & Sherer, 1984; Gray et al., 1995). Legitimacy Theory (LT) explores how organizations seek to gain and maintain legitimacy through accounting practices and disclosures. It emphasizes the strategies organizations use to align their practices with societal expectations and norms (Suchman, 1995; Deegan, 2002).

In developed countries, the application of CAT and LT reflects a well-established regulatory environment and advanced accounting practices. In developed countries, CAT is often used to critique the power structures within multinational corporations and the impacts of global financial practices. For example, in the U.S. and Europe, CAT has been applied to analyze how accounting practices influence social inequalities and corporate governance (Gallhofer & Haslam, 1997).

A study by Cooper and Robson (2006) examined how critical perspectives challenge traditional accounting practices in developed economies, highlighting issues of transparency and corporate accountability. In developed countries, LT is frequently used to study how organizations manage their legitimacy through comprehensive environmental and social reporting. For example, in the UK, organizations use LT to justify their sustainability practices and respond to stakeholder expectations (Gray, 2002). Deegan and Rankin (1996) analyzed how corporations in Australia use social and environmental reporting to maintain legitimacy, demonstrating the practical application of LT in developed contexts.

In developing countries, the application of CAT and LT is influenced by less stringent regulatory frameworks and varying levels of institutional development. In developing countries, CAT can be used to examine how accounting practices contribute to social and economic inequalities. For instance, in countries with emerging economies, CAT highlights issues such as corruption and inadequate financial transparency (Unerman, 2000). A study by O'Dwyer (2003) explored the role of critical accounting perspectives in addressing accountability issues in developing countries, revealing how CAT can challenge practices that perpetuate inequities.

Legitimacy Theory (LT) in developing countries often focuses on how organizations use legitimacy strategies to gain support from local stakeholders and align with international standards. For example, in many African countries, LT is used to understand how companies seek legitimacy through corporate social responsibility initiatives (O'Donovan, 2002). Thompson (2005) examined how companies in South Asia use LT to manage their legitimacy

amid socio-economic challenges, demonstrating the theory's relevance in developing contexts.

#### 4. Conclusion

Critical accounting theory and legitimacy theory have both played important roles in advancing accounting research beyond traditional financial metrics. While CAT offers a critical lens through which to view the role of accounting in reinforcing power structures and inequality, legitimacy theory provides a more pragmatic framework for understanding how organizations use accounting disclosures to manage their societal standing. Despite their differences, both theories have important implications for the development of social and environmental accounting and the broader role of accounting in promoting corporate accountability and transparency.

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